

SOUTH EASTERN COUNCIL OF GOVERNMENTS

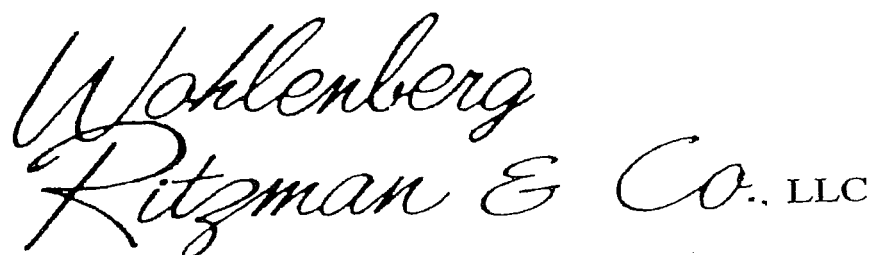
FINANCIAL STATEMENTS
(Audited)

DECEMBER 31, 2012

SOUTHEAST COUNCIL OF GOVERNMENTS

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certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of **South Eastern Council of Governments (SECOG)** as of and for the year ended December 31, 2012, and related notes to the financial statements, which collectively comprise SECOG's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Madison Office
112 South Eagan Avenue
PO Box 505
Madison, SD 57042
605-256-9165
Fax: 605-256-2872

Yankton Office
207 Douglas Ave
PO Box 1018
Yankton, SD 57078
605-665-4401
Fax: 605-665-0592

Sioux Falls Office
507 West 10th Street
PO Box 876
Sioux Falls, SD 57101
605-336-0372
Fax: 605-336-6842

Toll Free: 1-800-456-0889

e-mail: wrc@wrccpa.com

Member of: Private Companies Practice Section American Institute of CPA's, South Dakota Society of CPA's

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of South Eastern Council of Governments as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Eastern Council of Governments' basic financial statements. The accompanying Schedule of Overhead, Salaries and Benefits Expense is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of overhead, salaries and benefits expense and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of overhead, salaries and benefits expense and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013, on our consideration of South Eastern Council of Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SECOG's internal control of financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
May 15, 2013

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**STATEMENT OF NET POSITION
AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2012**

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 618,858	\$ -	\$ 618,858
Certificates of deposit	115,164	-	115,164
Receivables:			
Participating agencies - federal	170,368	-	170,368
Grants and contracts	10,840	-	10,840
Other receivables	21,764	-	21,764
Interest	3,473	-	3,473
Prepaid expenses	18,392	-	18,392
Deposits	8,159	-	8,159
Capital assets:			
Capital assets not being depreciated, net	-	90,301	90,301
Capital assets being depreciated, net	-	335,314	335,314
Total capital assets	-	425,615	425,615
Total Assets	\$ 967,018	\$ 425,615	1,392,633
LIABILITIES			
Accounts payable	\$ 4,542	\$ -	4,542
Payable to participating agencies - federal	170,368	-	170,368
Payable to participating agencies - state	2,956	-	2,956
Tenant deposits	1,928	-	1,928
Deferred revenue	10,034	-	10,034
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	-	18,912	18,912
Portion due or payable after one year:			
Accrued compensated absences	-	21,118	21,118
Total Liabilities	189,828	40,030	229,858
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable - insurance deposit	8,159	(8,159)	-
Assigned - building improvements	100,000	(100,000)	-
Unassigned	669,031	(669,031)	-
Total Fund Balances	777,190	(777,190)	-
Net Position:			
Invested in capital assets	-	425,615	425,615
Restricted for insurance deposit	-	8,159	8,159
Unrestricted	-	729,001	729,001
Total Net Position	-	1,162,775	\$ 1,162,775
Total liabilities and fund balance	\$ 967,018	\$ 425,615	

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Total fund balances for governmental fund \$ 777,190

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 90,301	
Buildings and improvements	422,100	
Equipment	82,485	
Accumulated depreciation	<u>(169,271)</u>	
Total capital assets		425,615

Long-term liabilities applicable to governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at December 31, 2012 are:

Compensated absences	\$ <u>(40,030)</u>	
Total long-term liabilities		<u>(40,030)</u>

Total net position of governmental activities \$ 1,162,775

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**STATEMENT OF ACTIVITIES
AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/PROGRAM EXPENSES			
Planning:			
Salaries and fringe benefits	\$ 754,050	\$ 745	\$ 754,795
Building expense	30,850	-	30,850
Professional fees	88,926	-	88,926
Travel	14,996	-	14,996
Insurance	8,292	-	8,292
Supplies and materials	8,310	-	8,310
Dues, subscriptions and memberships	5,756	-	5,756
Postage and freight	4,588	-	4,588
Telecommunications	7,225	-	7,225
Auto expense	6,375	-	6,375
Copy machine	1,043	-	1,043
Computer expense	8,441	-	8,441
Advertising and public information	1,525	-	1,525
Miscellaneous	311	-	311
Participating agency grant expense			
Federal grants	1,047,364	-	1,047,364
State grants	496,391	-	496,391
Depreciation	-	44,216	44,216
Capital outlay	<u>75,729</u>	<u>(75,729)</u>	<u>-</u>
Total expenditures/program expenses	<u>2,560,172</u>	<u>(30,768)</u>	<u>2,529,404</u>
PROGRAM REVENUES			
Charges for goods and services:			
Member dues	251,776	-	251,776
Other contract revenue	620,678	-	620,678
Participating agencies - state	496,391	-	496,391
Operating grants and contracts:			
SECOG - federal	199,151	-	199,151
Participating agencies - federal	<u>1,047,364</u>	<u>-</u>	<u>1,047,364</u>
Total program revenues	<u>2,615,360</u>	<u>-</u>	<u>2,615,360</u>
GENERAL REVENUES			
Interest income	4,761	-	4,761
Rental income	52,114	-	52,114
Other general revenue	6,621	-	6,621
Proceeds from the sale of capital assets	4,386	(4,386)	-
Gain on the disposal of capital assets	<u>-</u>	<u>4,386</u>	<u>4,386</u>
Total general revenues	<u>67,882</u>	<u>-</u>	<u>67,882</u>
Change in fund balances/net position	123,070	30,768	153,838
Fund balances/net position			
Beginning	<u>654,120</u>	<u>354,817</u>	<u>1,008,937</u>
Ending	<u>\$ 777,190</u>	<u>\$ 385,585</u>	<u>\$ 1,162,775</u>

The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental fund	\$123,070
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$75,729) exceeded depreciation expense (\$44,216) in the current period.	31,513
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences.	(745)
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In the statement of activities, the gain on the sale of assets (\$4,386) is reported, whereas, in the governmental funds, the proceeds (\$4,386) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.	-
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Change in net position of governmental activities	<u>\$ 153,838</u>
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The accompanying notes are an
integral part of these financial statements

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Eastern Council of Governments (SECOG) conform to generally accepted accounting principles as applicable to governments.

Nature of Business

SECOG is a voluntary association of cities and counties within the six county South Eastern South Dakota Region. SECOG was established in 1972 to assist local governments in preparing and causing to be prepared general physical, economic and human resource comprehensive plans containing recommendations for the coordinated, unified, and orderly growth of the entire region. SECOG was established by Executive Order of the Governor #70-7 under the authority granted in Chapter 1-24 of the South Dakota Codified Laws as of 1967. The basic operations of SECOG are financed by federal grants, member dues and other grant and contract revenues.

Reporting Entity

SECOG's financial statements include the accounts of all SECOG operations. The criteria for including organizations within SECOG's reporting entity, as set forth in GASB No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", primarily include the degree of oversight responsibility maintained by the Executive Board. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Members of SECOG are Counties and First Class Municipalities located within the following six county region in South Dakota: Clay, Lincoln, McCook, Minnehaha, Turner and Union.

According to the terms of the Joint Cooperative Agreement, the Executive Board, which is the policy making and oversight body for SECOG, is comprised of not more than twenty-one voting members and one non-voting member, who shall act as Chairman. The voting members consist of 11 Joint Cooperative Agreement Members including one from each County in the SECOG region, two members of the Sioux Falls City Council, the Mayors of Brandon, Sioux Falls and Vermillion; eight Private Sector Representatives residing in the SECOG region; and two State Legislators from SECOG's six county region.

SECOG's financial statements do not include the operations of member governments and various local agencies for which grants and funding are issued by SECOG because none of the criteria for inclusion set forth in GASB No. 14 have been met.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

SECOG represents a special purpose organization engaged in a single governmental program that provides member local governments with assistance in planning the growth and expansion of infrastructure and economic and human resources. As such, SECOG presents combined fund financial statements and government-wide statements.

Government-wide Statements: The statement of net position and the statement of activities display information about the reporting entity as a whole. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position reports all financial and capital resources in a net position form. Net position is displayed in three components, as applicable, invested in capital assets net of related debt, restricted, and unrestricted.

The Statement of Activities presents the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. SECOG presently has no proprietary or fiduciary funds.

All of SECOG's activities are accounted for within the General Fund, which is a governmental fund type. GASB 34 sets forth minimum criteria for the determination of major funds. As all activities are accounted for within this fund, it is presented as a major governmental fund described as follows:

General Fund - the General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds and similar fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. A 60 day availability period is used for recognition of governmental fund revenues.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

Capital Assets

Capital assets include vehicles and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets acquired under a grant would revert back to the funding source if SECOG ceased to exist. The member jurisdictions shall be entitled to a prorated share of the value of any real or personal property of SECOG after payment of all outstanding obligations. The prorated share is based on the percentage of funds contributed by that jurisdiction in the past five years compared to the total contributed in the past five years by all the member public agencies entitled to a share of the remaining real or personal property.

The accounting treatment over capital assets depends on whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization <u>Threshold</u>	Depreciation <u>Method</u>	Estimated <u>Useful Life</u>
Buildings and improvements	\$ 1,000	Straight-line	15-40 yrs.
Machinery and equipment	\$ 1,000	Straight-line	3-5 yrs.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. No depreciation expense is recognized.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences.

Long-term liabilities for the governmental fund are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures.

Compensated Absence

Regular, full-time employees accrue annual leave at up to five hours per pay period and regular, part-time employees receive a prorated share. Annual leave is accrued proportionally, and will be reduced in any period in which the employee is paid for less than a full paid period. Employees may accumulate annual leave, without limitation, provided that any unused annual leave hours remaining in an employee's accumulated balance in excess of 240 hours on December 31 of each year shall be forfeited. Under no circumstances will payment be made for accumulated leave in excess of 240 hours. Regular, full-time employees that have completed 15 years of service shall accrue annual leave each pay period at 6.6667 hours per period. Employees that have completed 15 years of service may accumulate annual leave without limitation, provided that as of December 31 of each calendar year, the employee's maximum balance of unused annual leave shall not exceed 320 hours.

Sick leave is accrued by eligible employees at four hours per pay period for regular, full-time employees and is prorated for regular part-time employees. Sick leave is accrued proportionally, and will be reduced in any period in which the employee is paid for less than a full paid period. Sick leave may accrue without limit. In the event of resignation, retirement, layoff, or death, one-fourth of accumulated sick leave (up to 480 hours) will be paid to employees who have worked for SECOG for at least seven years. The accumulated leave is paid at the rate of pay as of the employee's last day on the payroll.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than SECOG's taxpayers or citizenry, as a whole.

1. Charges for services – member dues – All member governments are required to pay dues to SECOG in order to belong to the organization and receive membership services. Dues are determined by census results and are recognized as revenues when assessed because they are measurable and collectible within the current period.
2. Charges for services – other contract revenues – These are program specific operating grants and contracts from other than federal sources.
3. Federal grants and contracts – These are program specific operating grants arising from mandatory and voluntary non-exchange transactions with other governments which fund SECOG's programs. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the providers have been met. Such revenue is subject to review by the funding agency. Minor adjustments may result in subsequent periods.

Equity Classifications

Government-wide Statements:

Equity is classified as net position and is displayed in three components

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components.

Application of Net Position

It is SECOG's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, SECOG classifies governmental fund balances as follows:

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the by the Executive Board.
5. Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

SECOG uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, SECOG would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

SECOG does not have a formal minimum fund balance policy.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - Deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

2. DEPOSITS AND INVESTMENTS, continued

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Investments - In general, SDCL 4-5-6 permits funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, SECOG's deposits may not be returned to it. SECOG does not have a deposit policy for custodial credit risk. As of December 31, 2012, SECOG's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2012, SECOG had no investments.

Authorized Investments – SECOG has adopted an investment policy that allows investment of SECOG's funds only in checking accounts, savings accounts, certificates of deposit, and money market accounts with qualified FDIC and NCUA public depositories within the SECOG region.

Investment Interest Rate Risk, Credit Risk and Concentration of Credit Risk – SECOG's investment policy has limited investment of funds to deposits in insured financial institutions and is not exposed to these investment risks.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

Receivables are primarily due from various grants and programs. Management anticipates collecting the receivables from these programs, therefore, no allowance for doubtful accounts has been provided for these receivables.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

3. RECEIVABLES AND PAYABLES, continued

Grants receivable consist of receivables for reimbursement of expenditures under various programs and grants. All amounts are expected to be collected within the next year. A summary of grants receivable as of December 31, 2012, is as follows:

Grants receivable – participating agencies:	
Federal Highway (MPO)	<u>\$ 170,368</u>
	<u>\$ 170,368</u>
Grants receivable – SECOG:	
Federal Highway (MPO)	\$ 9,978
SDHDA - HOME	<u>862</u>
	<u>\$ 10,840</u>

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of SECOG. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although SECOG expects such amounts, if any, to be immaterial.

4. LEASING ACTIVITIES

SECOG has entered into lease receivable agreements with three tenants for rental of office space. One tenant lease was for a one year term. This lease expired on March 31, 2013. The suite was subsequently leased for a 3 year term beginning April 1, 2013. The other two tenants' leases are long-term and will expire on December 31, 2015, and March 31, 2017. SECOG received \$52,114 in rental income under these leases during the year ended December 31, 2012.

The following is a schedule, by year, of minimum lease payments receivable for the tenants with long-term leases as of December 31, 2012:

<u>Year</u>	
2013	\$ 50,717
2014	52,142
2015	52,142
2016	20,030
2017	<u>4,652</u>
Total	<u>\$ 179,683</u>

SOUTH EASTERN COUCL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2012, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 90,301	\$ -	\$ -	\$ 90,301
Total capital assets not being depreciated	<u>90,301</u>	<u>-</u>	<u>-</u>	<u>90,301</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	384,445	37,655	-	422,100
Equipment	<u>72,162</u>	<u>38,074</u>	<u>(27,751)</u>	<u>82,485</u>
Total capital assets being depreciated	<u>456,607</u>	<u>75,729</u>	<u>(27,751)</u>	<u>504,585</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	100,413	32,139	-	132,552
Equipment	<u>52,393</u>	<u>12,077</u>	<u>(27,751)</u>	<u>36,719</u>
Total capital assets being depreciated	<u>152,806</u>	<u>44,216</u>	<u>(27,751)</u>	<u>169,271</u>
Total capital assets being depreciated, net	<u>303,801</u>	<u>31,513</u>	<u>-</u>	<u>335,314</u>
Governmental activities capital assets, net	<u>\$ 394,102</u>	<u>\$ 31,513</u>	<u>\$ -</u>	<u>\$ 425,615</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended December 31, 2012, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Witin One Year
<i>Governmental activities:</i>					
Compensated absences	\$ 39,285	\$ 19,420	\$ (18,675)	\$ 40,030	\$ 18,912
Total	<u>\$ 39,285</u>	<u>\$ 19,420</u>	<u>\$ (18,675)</u>	<u>\$ 40,030</u>	<u>\$ 18,912</u>

7. DEFERRED REVENUE

Deferred revenue consists of prepaid membership dues and rent.

8. RESTRICTED NET POSITION

As of December 31, 2012, net position restrictions as shown on the Statement of Net Position are for an insurance deposit in the amount of \$8,159, the access of which is controlled by the South Dakota Public Assurance Alliance.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

9. ALLOCATION OF FRINGE BENEFITS AND INDIRECT COSTS

SECOG's fringe benefits and indirect costs are based on actual expenditures determined in accordance with the U.S. Office of Management and Budget (OMB) *Circular A-87 Cost Principles for State, Local, and Tribal Governments*. Fringe benefits are allocated to grants as a percentage of SECOG's salaries and wages. Indirect costs represent the administrative burden of SECOG, and are allocated as a percentage of direct salaries and fringe benefits.

The rate used for fringe benefits for the year ended December 31, 2012, was 42.27%. The indirect cost rate for the year ended December 31, 2012, was 22.40%.

SECOG's operations consist of general operations and participating agency grants that are accounted for within the general fund. The allocation of fringe benefits and indirect costs refers to allocations in connection with specific grants and contracts.

10. DEFERRED COMPENSATION PLAN

SECOG previously offered all full-time permanent employees a deferred compensation plan administered by the International City Management Association Retirement Corporation. The plan was created in accordance with Internal Revenue Code Section 457. Under the plan, employees deferred a portion of their salary until future years. Internal Revenue Code Section 457, as amended, requires deferred compensation amounts to be held in trust for the exclusive benefit of the employee. As such, plan assets are protected from claims on SECOG and from any use by SECOG other than paying benefits in accordance with the plan. As of July 1, 2003, SECOG no longer matched the employee's contribution. There are still employees covered under this plan.

11. RETIREMENT PLAN

SECOG became a member of the South Dakota Retirement System (SDRS) on July 1, 2003.

All regular, full-time and part-time employees participate in the SDRS, a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

11. RETIREMENT PLAN, continued

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. SECOG's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011 and 2010 were \$34,251, \$31,083 and \$27,672, respectively, equal to the required contributions each year.

12. RISK MANAGEMENT

SECOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2012, SECOG managed its risks as follows:

Employee Health Insurance

SECOG purchases health insurance for its employees from a commercial carrier.

Liability and Property Insurance

SECOG joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. SECOG's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against SECOG. SECOG pays an annual premium to the pool to provide coverage for general liability, property coverage, auto liability and damage, and errors and omissions of public officials. The agreement with the South Dakota Public Assurance Alliance provides that the liability coverage will be provided up to \$1,000,000. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. SECOG carries a \$500 deductible for the official liability coverage.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2012

12. RISK MANAGEMENT, continued

A portion of the member premiums are also allocated to a cumulative reserve fund. SECOG would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the First Full Year	50%
End of the Second Full Year	60%
End of the Third Full Year	70%
End of the Fourth Full Year	80%
End of the Fifth Full Year	90%
End of the Sixth Full Year and Thereafter	100%

As of December 31, 2012, SECOG has a vested balance in the cumulative reserve fund of \$8,159.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

SECOG joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. SECOG's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. SECOG pays an annual premium, to provide worker's compensation coverage to its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$1,675,000 per individual per incident.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

SECOG provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

SUPPLEMENTARY INFORMATION

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF OVERHEAD, SALARIES AND BENEFITS EXPENSE YEAR ENDED DECEMBER 31, 2012

	Direct	Indirect	Total
Total salaries	\$ 392,521	\$ 135,873	\$ 528,394
Percent of total	74.29%	25.71%	
Fringe Benefits:			
Holiday, vacation, sick and administrative leave			\$ 71,697
Retirement expense			34,381
Social Security, Medicare and Unemployment			46,435
Dental, health and self funded deduction			73,888
Total fringe benefits before carry forward	\$ 168,193	\$ 58,208	226,401
Over (under) recovered fringe benefit costs for Year Ended 2012 (calculated below)	(2,274)	(774)	(3,048)
Carry Forward - over recovered from 2010 (from Audit Report)	20,852	8,377	29,229
Total Fringe Benefit Costs	\$ 186,771	\$ 65,811	\$ 252,582
Fringe Benefits Distribution:			
Salaries	\$ 392,521	\$ 135,873	\$ 528,394
Fringe Benefit Rate applied to 2012	42.27%	42.27%	
Fringe Benefit Costs Recovered	165,919	57,434	\$ 223,353
Actual Fringe Benefit Costs (based on Percent of Total Salaries)	168,193	58,208	226,401
Over (Under) Recovered Fringe Benefit Costs	\$ (2,274)	\$ (774)	\$ (3,048)
Salaries	\$ 392,521	\$ 135,873	\$ 528,394
Benefits	186,771	65,811	252,582
Total salaries and benefits	\$ 579,292	201,684	\$ 780,976
Reimbursable Overhead:			
Accounting, legal and professional fees		9,664	
Advertising and public information		897	
Building expense		30,850	
Auto expense		6,375	
Computer hardware		1,110	
Computer software		5,308	
Copy machine		1,043	
Dues, subscriptions and memberships		4,631	
Insurance		8,292	
Office furniture and equipment		-	
Postage and freight		4,588	
Professional development		-	
Staff travel		6,794	
Supplies and materials		7,518	
Telecommunications		6,476	
Miscellaneous		311	
Total indirect general and administrative expenses		93,857	
Depreciation		44,216	
Total indirect general and administrative expenses plus depreciation		138,073	
Total overhead before carry forward		339,757	
Over (under) recovered for Year Ended 2012		(209,996)	
Carry forward from 2010		(179,485)	
Total Indirect Costs		\$ (49,724)	
Direct salaries	\$ 392,521		
Fringe benefits (based on percentage of total direct)	186,771		
Direct salaries and fringe	\$ 579,292		
Indirect Cost Rate applied to 2012	22.40%		
Indirect costs recovered		\$ 129,761	
Actual indirect costs		339,757	
Over (Under) Recovered Costs for 2012		\$ (209,996)	

See Independent Auditor's Report

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012**

FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Contract/ Grant Number	Expenditures/Disbursements		
			SECOG	Agencies	Total
<u>U.S. Department of Transportation</u>					
Passed through the State of South Dakota					
Department of Transportation					
Highway Planning and Construction (Federal Aid Highway Program) - (Note 2)	20.205				
Metropolitan Planning Organization		311136	\$ 120,794	\$ 1,047,364	\$ 1,168,158
GPS/GIS Automated Mapping/Inventory		311116	8,620	-	8,620
Total			<u>129,414</u>	<u>1,047,364</u>	<u>1,176,778</u>
Total U.S. Department of Transportation			<u>129,414</u>	<u>1,047,364</u>	<u>1,176,778</u>
<u>U.S. Department of Commerce</u>					
Direct Funding					
Economic Development Support For Planning Organizations	11.302				
Economic Development Administration		05-83-04948	<u>67,000</u>	<u>-</u>	<u>67,000</u>
Total U.S. Department of Commerce			<u>67,000</u>	<u>-</u>	<u>67,000</u>
<u>U.S. Department of Housing and Urban Development</u>					
Passed through the South Dakota Housing Development Authority					
Home Investment Partnerships Program	14.239		<u>2,737</u>	<u>-</u>	<u>2,737</u>
Total U.S. Department of Housing and Urban Development			<u>2,737</u>	<u>-</u>	<u>2,737</u>
Total Federal Funding			\$ 199,151	\$ 1,047,364	\$ 1,246,515

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued YEAR ENDED DECEMBER 31, 2012

- Note 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of SECOG and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2: For the Metropolitan Planning Organization program, SECOG and participating agencies were reimbursed for eligible costs at the rate of 81.95%. Amounts reflected represent the 81.95% portion.
- Note 3: Participating agencies included the City of Sioux Falls, City of Harrisburg, Lincoln County, and Minnehaha County, all in South Dakota.

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of South Eastern Council of Governments (SECOG) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise SECOG's basic financial statements, and have issued our report thereon dated May 15, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SECOG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SECOG's internal control. Accordingly, we do not express an opinion on the effectiveness of SECOG's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Madison Office
112 South Eagan Avenue
PO Box 505
Madison, SD 57042
605-256-9165
Fax: 605-256-2872

Yankton Office
207 Douglas Ave
PO Box 1018
Yankton, SD 57078
605-665-4401
Fax: 605-665-0592

Sioux Falls Office
507 West 10th Street
PO Box 876
Sioux Falls, SD 57101
605-336-0372
Fax: 605-336-6842

Toll Free: 1-800-456-0889

e-mail: wrc@wrccpa.com

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SECOG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
May 15, 2013

*Wohlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Executive Board of Directors
South Eastern Council of Governments
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

We have audited South Eastern Council of Governments' (SECOG) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on SECOG's major federal programs for the year ended December 31, 2012. SECOG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SECOG's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SECOG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Madison Office
112 South Eagan Avenue
PO Box 505
Madison, SD 57042
605-256-9165
Fax: 605-256-2872

Yankton Office
207 Douglas Ave
PO Box 1018
Yankton, SD 57078
605-665-4401
Fax: 605-665-0592

Sioux Falls Office
507 West 10th Street
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605-336-0372
Fax: 605-336-6842

Toll Free: 1-800-456-0889

e-mail: wrc@wrccpa.com

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SECOG's compliance.

Opinion on Each Major Federal Program

In our opinion, SECOG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of SECOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SECOG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SECOG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to *merit* attention by those charged with governance.

Our consideration of internal control over compliance was for the *limited* purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
May 15, 2013

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS

The prior audit report contained no written major federal compliance audit findings.

PRIOR OTHER AUDIT FINDINGS

The prior audit report contained no written other audit findings.

SOUTH EASTERN COUNCIL OF GOVERNMENTS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses _____ yes X none reported

Type of auditor's report issued on compliance for major programs Unqualified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 _____ yes X no

Identification of major programs:

CFDA Numbers
20.205

Name of Federal Program or Cluster
Highway Planning and Construction (Federal Aid Highway Program)

Dollar Threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

SOUTH EASTERN COUNCIL OF GOVERNMENTS

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS - continued
DECEMBER 31, 2012**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

There are no financial statement audit findings reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

There are no major federal award program findings reported.